

**PACE  
Community  
Action Agency, Inc.  
And Subsidiaries**

**Consolidated Financial  
Statements  
For The Year Ended  
December 31, 2010  
(With Single Audit Section)**



*Certified Public Accountants*

**PACE COMMUNITY ACTION AGENCY, INC. AND SUBSIDIARIES**  
**(Vincennes, Indiana)**  
**FINANCIAL STATEMENTS**

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BUSINESS PLANNING  
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### Independent Auditor's Report

Board of Directors  
PACE Community Action Agency, Inc. and Subsidiaries  
Vincennes, Indiana

We have audited the accompanying consolidated statement of financial position of PACE Community Action Agency, Inc. and Subsidiaries as of December 31, 2010 and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACE Community Action Agency, Inc. and Subsidiaries as of December 31, 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2011 on our consideration of PACE Community Action Agency, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information is the responsibility management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.

July 5, 2011

**PACE COMMUNITY ACTION AGENCY, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010**

<b>ASSETS</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 314,049	\$ 27,075	\$ 341,124
Certificates of deposit	64,223	-	64,223
Grants receivable	686,994	-	686,994
Other receivables	393,172	-	393,172
Inventory	11,123	-	11,123
Prepaid expenses	74,685	-	74,685
	<u>1,544,246</u>	<u>27,075</u>	<u>1,571,321</u>
<b>PROPERTY AND EQUIPMENT:</b>			
Property and equipment, net of accumulated depreciation and amortization	3,409,563	-	3,409,563
	<u>\$ 4,953,809</u>	<u>\$ 27,075</u>	<u>\$ 4,980,884</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 454,385	\$ -	\$ 454,385
Advance funds	171,486	-	171,486
Accrued payroll and payroll liabilities	186,770	-	186,770
Accrued paid time off	34,230	-	34,230
Due to other funds	177,576	-	177,576
EFTCU line of credit	23,096	-	23,096
Current portion of long-term debt	104,497	-	104,497
	<u>1,152,040</u>	<u>-</u>	<u>1,152,040</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION:</b>			
	<u>217,996</u>	<u>-</u>	<u>217,996</u>
<b>NET ASSETS:</b>			
	<u>3,583,773</u>	<u>27,075</u>	<u>3,610,848</u>
	<u>\$ 4,953,809</u>	<u>\$ 27,075</u>	<u>\$ 4,980,884</u>

See accompanying notes to financial statements.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Federal government revenue	\$ 10,115,884	\$ -	\$ 10,115,884
State and local government revenue	51,675	-	51,675
Other grant income	26,185	-	26,185
Fees and program income	1,045,117	27,075	1,072,192
Contributions	27,730	-	27,730
Gain on disposal of equipment	2,875	-	2,875
Interest income	10,915	-	10,915
Inkind contributions	367,338	-	367,338
	<u>11,647,719</u>	<u>27,075</u>	<u>11,674,794</u>
<b>Operating Expenses:</b>			
Community Services Block Grant	634,459	-	634,459
Energy assistance	2,719,301	-	2,719,301
Leveraging incentive	1,751	-	1,751
Weatherization assistance program	2,091,536	-	2,091,536
Head Start	3,936,095	-	3,936,095
Family planning	715,340	-	715,340
Women, infants and children	284,760	-	284,760
Development projects	87,780	-	87,780
Other programs	77,103	-	77,103
Management and general	245,716	-	245,716
Fundraising	1,738	-	1,738
Subsidiaries	492,139	-	492,139
	<u>11,287,718</u>	<u>-</u>	<u>11,287,718</u>
Increase in net assets	360,001	27,075	387,076
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,223,772</u>	<u>-</u>	<u>3,223,772</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 3,583,773</u>	<u>\$ 27,075</u>	<u>\$ 3,610,848</u>

See accompanying notes to financial statements.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	Community Services <u>Block Grant</u>	Energy Assistance	Leveraging Incentives <u>Program</u>	Weatherization Assistance <u>Program</u>	<u>Head Start</u>
<b>OPERATING EXPENSES</b>					
Personnel	\$ 223,696	\$ 224,181	\$ -	\$ 466,674	\$ 1,949,138
Employee benefits	14,787	19,355	-	51,459	222,628
Payroll taxes	20,913	20,375	-	40,401	164,079
Accounting fees	2,918	7,388	-	3,087	11,355
Legal fees	-	-	-	701	326
Supplies	7,611	58,269	-	84,175	619,176
Telephone	6,557	12,602	-	14,357	45,088
Postage	925	9,125	-	2,697	3,110
Occupancy	61,675	49,457	-	37,821	464,558
Equipment maintenance and purchase	28,658	-	-	6,422	9,410
Printing and publications	4,793	11,656	-	3,901	40,387
Dues and filing fees	2,999	-	-	-	-
Contract labor	2,287	-	-	-	7,759
Training and education	26,290	-	-	-	13,253
Travel	23,354	2,000	-	30,557	90,743
Depreciation	21,799	1,775	-	8,564	25,564
Insurance	4,295	2,315	-	12,250	31,172
Data processing	15,977	2,677	-	3,263	14,507
Direct assistance	164,925	2,298,126	1,751	1,325,207	223,842
Interest expense	-	-	-	-	-
Other expenses	-	-	-	-	-
<b>Total Expenses Reported by Function</b>	<u>\$ 634,459</u>	<u>\$ 2,719,301</u>	<u>\$ 1,751</u>	<u>\$ 2,091,536</u>	<u>\$ 3,936,095</u>

See accompanying notes to financial statements.

<u>Family Planning</u>	<u>Women, Infants and Children</u>	<u>Development Projects</u>	<u>Other Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Subsidiaries</u>	<u>Totals</u>
\$ 350,137	\$ 162,995	\$ 47,876	\$ 1,276	\$ 1,853	\$ 79	\$ 296,288	\$ 3,724,193
7,227	6,650	6,036	124	3,274	1	14,886	346,427
28,893	13,309	4,062	111	173	7	30,152	322,475
1,252	689	-	-	-	-	4,200	30,889
-	-	-	-	520	-	-	1,547
30,340	19,078	943	5,923	(91)	13	43,012	868,449
10,082	9,933	1,190	40	50	2	3,067	102,968
2,460	1,118	624	6	-	466	404	20,935
86,409	43,710	5,024	171	19,918	9	24,731	793,483
-	-	-	-	-	-	97	44,587
6,690	1,316	2,718	2	268	-	1,837	73,568
-	-	100	20	-	-	-	3,119
3,000	510	13,417	-	500	-	19,814	47,287
508	-	-	-	-	-	130	40,181
10,031	244	2,156	-	-	-	10,752	169,837
650	-	-	588	206,698	-	14,887	280,525
3,723	2,368	196	7	(3,959)	-	1,522	53,889
7,745	1,456	618	35	557	62	2,827	49,724
166,193	21,384	-	68,563	5,767	-	-	4,275,758
-	-	2,820	-	9,024	-	15,529	27,373
-	-	-	237	1,164	1,099	8,004	10,504
<u>\$ 715,340</u>	<u>\$ 284,760</u>	<u>\$ 87,780</u>	<u>\$ 77,103</u>	<u>\$ 245,716</u>	<u>\$ 1,738</u>	<u>\$ 492,139</u>	<u>\$ 11,287,718</u>

**PACE COMMUNITY ACTION AGENCY, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Increase (decrease) in net assets	\$ 387,076
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation	280,525
Gain on donation of facility	(27,730)
Gain on disposal of equipment	(2,875)
Loss on disposal of subsidiary	47,108
Increase (decrease) in cash from changes in:	
Grants receivable	(271,609)
Other receivables	(166,319)
Inventory	355
Prepaid expenses	376
Accounts payable	(151,215)
Advance Funds	164,595
Accrued payroll and payroll expenses	26,074
Accrued paid time off	(668)
Due to other funds	22,978
Net cash provided by (used in) operating activities	308,671

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of certificates of deposit	(1,141)
Acquisition of property and equipment	(370,797)
Proceeds from sale of property and equipment	27,682
Net cash used in investing activities	(344,256)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Net change in line of credit	(36,476)
Proceeds from notes payable	243,831
Principal payments against notes payable	(223,789)
Net cash provided by financing activities	(16,434)

**NET INCREASE (DECREASE) IN CASH  
AND CASH EQUIVALENTS**

(52,019)

**CASH AND CASH EQUIVALENTS,  
BEGINNING OF YEAR**

393,143

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 341,124

**Supplemental disclosures of Cash Flow Information**

Cash paid during the year for interest	\$ 27,373
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See accompanying notes to financial statements.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of PACE Community Action Agency, Inc. (the "Organization"), and its wholly-owned subsidiary, PACE Ventures Holding, Inc. The statements also include the for-profit limited liability companies, PACE Ventures, LLC and PACE Adventures Childcare, LLC, which are wholly-owned by PACE Ventures Holding, Inc. In accordance with FASB ASC 958-810-15-4, consolidation is required for each of the previously mentioned entities and all material intercompany transactions have been eliminated in the consolidation.

The Organization also has a wholly-owned subsidiary, PACE Development Corporation, which is the sole member of PACE-Ivy Lane, LLC, which serves as the general partner for Ivy Lane, L.P. The financial activity of PACE Development Corporation is included in the consolidated financial statements, however, due to the immaterial nature of that activity, it is not presented separately.

**NATURE OF OPERATIONS**

PACE Community Action Agency, Inc. (the "Organization") was incorporated as Wabash Valley Human Services, Inc. and commenced operations as a not-for-profit corporation in 1965, under the laws of the State of Indiana. Effective January 1, 2007, the Organization changed its name to PACE Community Action Agency, Inc. The Organization currently serves the counties of Daviess, Greene, Knox and Sullivan with limited services provided in Vigo County. In addition, the Organization is governed by a volunteer Board of Directors with advisory and policy councils serving to guide the various programs administered. The primary goal of the Organization is to enable economically and socially disadvantaged people to achieve self-sufficiency and become less dependent on public assistance. Programs and services offered provide opportunities for all age groups, particularly those who are low-income and meet program guidelines.

On January 3, 2007, the Organization formed PACE Ventures Holding, Inc., a C corporation (the "Subsidiary") as a wholly owned subsidiary under the laws of the State of Indiana. Currently, the Subsidiary provides computer training for community residents and non-profit financial, human resource and consulting services for non-profit organizations. In addition, the Subsidiary has two (2) wholly owned subsidiaries. PACE Ventures, LLC was formed on December 28, 2006, to provide janitorial and cleaning services to business and residential customers in southern Indiana and Illinois. PACE Adventures Childcare, LLC was formed on August 8, 2007, to purchase an existing daycare business and facility in the Vincennes, Indiana area. Income or losses from business activity performed by PACE Ventures, LLC and PACE Adventures Childcare, LLC are reflected as increases and decreases in the investment in subsidiaries balance in the statement of consolidated financial position. In addition, income or losses from LLC activity is presented in the investment in subsidiary income balance in the consolidated statement of activities.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**NATURE OF OPERATIONS (continued)**

In September 2010, the Organization formed PACE Development Corporation which is the sole member of PACE-Ivy Lane, LLC, a single member LLC and wholly owned subsidiary of the Organization, for the purpose of developing low-income housing units in Knox County. PACE-Ivy Lane, LLC serves as the general partner for Ivy Lane, L.P. (the Partnership) and holds a .009% interest. In 2010 Ivy Lane, L.P. began construction of 31 units in Knox County (Ivy Lane Apartments) which will be rented to low-income individuals and, as a result, forgivable federal loans are available to the Partnership. In 2010, \$855,036 in Section 1602 forgivable loans were awarded to the partnership.

**BASIS OF ACCOUNTING**

The financial statements of the Organization and Subsidiaries have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**INVENTORY**

Materials and supplies purchased throughout the year are charged to expense as the cost is incurred. Any items remaining on hand at year end are recognized as inventory in the financial statements at their actual cost.

**REVENUE RECOGNITION**

The Organization receives grants from the State of Indiana (State) and the federal government to carry out certain program activities. The grants are received under contracts which require the Organization to submit to the State appropriate records of services provided to eligible individuals. Revenues under the contracts are recognized as the services are provided.

The Subsidiaries recognize revenue as it is earned and billed.

**PROPERTY AND EQUIPMENT**

The Organization's property and equipment are stated at cost and depreciated over estimated useful lives of five to forty years using the straight-line method. The following is a summary of the lives for each class of asset:

Buildings	40 years
Equipment	5-10 years
Vehicles	5-10 years

Expenditures for improvements and major renewals are capitalized. When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expensed when incurred. Depreciation expense incurred for the year ended December 31, 2010 was \$265,638.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**PROPERTY AND EQUIPMENT (continued)**

The Subsidiaries' property is stated at cost and depreciated over an estimated useful life of thirty years. The Subsidiaries provide for depreciation in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method. It is the Subsidiaries general practice to charge maintenance and repairs to expense in the current period. Depreciation expense incurred by the Subsidiaries for the years ended December 31, 2010 was \$14,887.

**CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash balances in several banks. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2010. At December 31, 2010, the Organization did not have any uninsured cash balances.

Revenues from federal and state government agencies that provide grant and contract funding to the Organization as of December 31, 2010, represented 78% of the Organization's total revenue and support for the year.

**INCOME TAX STATUS**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Income tax expense for the Subsidiaries will include federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. No such differences existed as of December 31, 2010. There was no provision for income tax since the Subsidiaries either had no taxable income or have adequate loss carryforwards available to offset any potential taxable income.

In addition, since the two subsidiary LLCs are wholly owned by PACE Ventures Holding, Inc., there is only a single member (owner) for both. Per Internal Revenue Service Code these LLCs are considered to be "disregarded entities" for tax purposes, meaning that all revenues and expenses of the LLCs are reported as part of the PACE Ventures Holding, Inc. corporate tax return. No income tax returns are required to be prepared for the sole-member LLCs.

**CONTRIBUTIONS**

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (continued)**

**CONTRIBUTED SERVICES**

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance non-financial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, solicitations, and various committee assignments. No amounts have been recorded in the financial statements for non-professional volunteer time.

**FINANCIAL STATEMENT PRESENTATION**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) for *Financial Statements of Not-for-Profit Organizations*. Per these Standards the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the unrestricted, temporarily and permanently restricted net asset classes follows:

*Unrestricted net assets* represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.

*Temporarily restricted net assets* represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

*Temporarily restricted net assets* also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which has not been appropriated by the Board of Directors.

*Permanently restricted net assets* represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization's temporarily restricted net assets consist of \$27,075 in developer fees earned from the Ivy Lane low income housing project which were earned and collected but per the developer agreement could not be expended until additional contract requirements were met. The Organization did not have any permanently restricted net assets as of December 31, 2010.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (continued)**

**ADOPTION OF NEW ACCOUNTING STANDARDS**

With the adoption of FASB standard for *Accounting for Uncertainty in Income Taxes*, the Organization recognizes a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Currently, the Organization accounts for contingencies associated with certain tax positions in accordance with the FASB standard for *Accounting for Contingencies*.

*Accounting for Contingencies*, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more likely than not recognition threshold. The Organization has examined this issue and has determined there are no material contingent tax liabilities.

In 2006, the Financial Accounting Standards Board (FASB) issued a standard addressing *Fair Value Measurements*, which defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. The Organization adopted applicable portions of this standard for the year ended December 31, 2009. Additional disclosure is provided in Note 9.

In addition, the Organization has examined this issue for the subsidiary companies and has also determined that there are no material contingent tax liabilities

**IN-KIND CONTRIBUTIONS**

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase revenue and other support by the same amount. For the year ended December 31, 2010, this adjustment amounted to approximately \$367,338 and is included in other revenue and support on the Consolidated Statements of Activities.

The Organization has recorded in-kind contributions for professional services on the Consolidated Statement of Activities in accordance with the FASB standard for *Accounting for Contributions Received and Contributions Made*. This standard requires that only contributions of services received that create or enhance a non-financial assets or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of this standard are different from the in-kind requirements of the Organization's grant funding sources.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**IN-KIND CONTRIBUTIONS (continued)**

Of the \$367,338 of in-kind contributions and related expenses recorded in the Organization's Consolidated Statement of Activities for the year ended December 31, 2010, contributed services meeting the requirements of FASB standards are \$26,813.

During 2010, the Organization also received other in-kind contributions totaling \$527,861 from non-professional volunteers, primarily for its Head Start program which are not recorded in the Consolidated Statement of Activities.

**GOVERNMENT GRANTS**

Support funded by grants is recognized as the Organization performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Amounts required prior to expenditures being incurred are reflected as advance funds on the Statement of Financial Position.

**CASH AND CASH EQUIVALENTS**

For purposes of the Statement of Cash Flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**GRANTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

The grants receivable represent amounts the Organization has filed claims for the year ended and were awaiting payment. A substantial majority of receivables are due from government sources. The amount deemed uncollectible is zero. Therefore, no bad debt allowance is considered necessary.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**EXPENSE ALLOCATION**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 2 – PROPERTY AND EQUIPMENT**

The Organization's property and equipment are as follows at December 31, 2010:

Buildings	\$ 3,412,592
Vehicles	183,428
Equipment	271,006
	<u>3,867,026</u>
Accumulated depreciation	(744,105)
	<u>3,122,921</u>
Land	92,376
	<u>\$ 3,215,297</u>

The Subsidiaries' property and equipment are as follows at December 31, 2010:

Building	\$ 134,900
Building improvements	73,075
Equipment	29,574
	<u>237,549</u>
Accumulated depreciation	(48,383)
	<u>189,166</u>
Land	5,100
	<u>\$ 194,266</u>

**NOTE 3 – EMPLOYEE BENEFITS**

The Organization switched from a 403(b) defined contribution plan to 401(k) plan in May 2008. The Agency matches employee contributions dollar for dollar up to \$200. For the year ended December 31, 2010, the employer contributions amounted to \$8,732, respectively.

**NOTE 4 – OPERATING LEASES**

The Organization leases multiple operating facilities under cancelable operating lease arrangements which expire at various times through July 2015. The arrangements are only cancelable should Federal funding for the program using the facility cease or become unavailable. In addition, the Organization leases office equipment under a non-cancelable lease which expires in July of 2013. Rental expense for these leases included in the statements of activities for the year ended December 31, 2010 was \$200,956.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 4 – OPERATING LEASES (continued)**

Future minimum lease payments for long-term leases are as follows for the years ended December 31,:

2011	\$ 158,724
2012	140,477
2013	63,366
2014	12,883
2015	5,250
Thereafter	<u>-0-</u>
	<u>\$ 380,700</u>

**NOTE 5 – GRANTS RECEIVABLE**

Grants receivable consisted of the following as of December 31, 2010:

U.S. Department of Health and Human Services	\$ 57,479
U.S. Department of Agriculture	14,211
Indiana Department of Health	38,691
Indiana Family Health Council	48,983
Indiana Housing and Community Development	527,630
	<u>\$ 686,994</u>

**NOTE 6 – LINE OF CREDIT – BANK**

The Organization has a \$60,000 unsecured line of credit with Evansville Teachers Federal Credit Union (ETFCU). Interest is payable at a fixed rate of 6.5%. The line of credit was renewed in March 2010 and matures in March 2011. At December 31, 2010 the balance was \$23,096. The line was subsequently renewed in March 2011 for \$75,000, at a fixed rate of 5.25% and maturing in March 2012.

Subsequent to year end the Organization signed a \$75,000 unsecured line of credit with First Financial Bank. Interest is payable at a variable interest rate of 4.0% at the time of signing. The line of credit matures in March 2013. At December 31, 2010 there was no outstanding balance on the line.

**NOTE 7 - ALLOCATION OF COSTS**

The Organization allocates joint costs to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Joint costs are those costs incurred for the common benefit of all agency programs, which cannot be readily identified with a final cost objective. The Organization's cost allocation methods are as follows:

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 7 - ALLOCATION OF COSTS (continued)**

*Personnel.* Agency personnel with multiple program duties (Executive Director, Chief Operating Officer, accounting personnel, etc.) record the time they spend working on specific programs on their time sheets. The time specifically identifiable to a particular program is charged to that program.

*Occupancy Costs.* Occupancy costs (maintenance costs, utilities, insurance, rent, repair costs, etc.) are allocated based on the number of square feet of space each program occupies. Space occupied by staff with multiple program duties is allocated based upon time worked in each program.

*Copy Costs.* A record is maintained of copies made for each program. Copy costs are charged monthly to programs based upon the number of copies made.

*Insurance.* Insurance is allocated to benefiting programs depending on the equipment, space or number of employees covered by the insurance.

*Other Joint Costs.* Other joint costs (telephone, computer usage, etc.) are allocated to agency programs based upon usage by each program.

**NOTE 8 – LONG-TERM DEBT**

Long-term debt of the Organization consists of the following as of December 31, 2010:

Note payable – 5.80% note payable to First Financial Bank dated April 25, 2008 payable in monthly installments of \$916.42 with interest maturing in April 2028, secured by a building.	\$ 107,440
Note payable – 5.80% note payable to First Financial Bank dated April 28, 2008 payable in monthly installments of \$278.98 with interest maturing in April 2013, unsecured.	7,290
Note payable – 4.25% note payable to Indiana Housing and Community Development Authority dated July 16, 2010 payable in monthly installments of \$ with interest, maturing in August 2011	<u>86,374</u>
	<u>\$ 201,104</u>

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 8 – LONG-TERM DEBT (continued)**

Long-term debt of PACE Ventures Holding, Inc. consists of the following as of December 31, 2010:

Note payable – 6.75% note payable to Evansville Teachers Federal Credit Union dated August 22, 2007 payable in monthly installments of \$913 with interest maturing in August 2022, secured by a building.	\$ 88,186
Note payable – 4.95% note payable to Evansville Teachers Federal Credit Union dated March 24, 2009 payable in monthly installments of \$263.54 with interest maturing in March August 2019, secured by assets of the organization.	<u>20,827</u>
	<u>\$ 109,013</u>

Long-term debt of the PACE Ventures, LLC consists of the following as of December 31, 2010:

Note payable – 5.84% note payable to Old National Bank dated November 15, 2010 payable in monthly installments of \$385.90 with interest maturing in November 2013, secured by a vehicle.	<u>\$ 12,376</u>
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The future maturities of long-term debt are as follows for the years ended December 31,

2011	\$ 104,497
2012	19,580
2013	18,708
2014	13,730
2015	14,591
Thereafter	<u>151,387</u>
	<u>\$ 322,493</u>

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Statement of Financial Accounting Standard for *Fair Value Measurements* defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

This standard establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement the entire fair value measurement in the hierarchy. The Organization holds a Certificate of deposit which is classified as a Level 1 investment and an investment in subsidiaries which is classified as a Level 3 investment.

**NOTE 10 – RECLASSIFICATIONS**

Certain reclassifications have been made to the 2009 balances presented in these financial statements to conform to the 2010 presentation.

**NOTE 11 – DISPOSAL OF SUBSIDIARY**

Based on the losses incurred, it was determined to cease operation of the subsidiary Adventures Childcare as a for-profit childcare center. During 2010, the center was converted to a Head Start facility which operates as a non-profit program of the Organization. Pace Ventures Holding, the Parent company maintains ownership of the building and grounds.

**NOTE 12 – GUARANTEES**

The Organization, along with other interested parties have agreed to guarantee the performance of Ivy Lane, L.P. in its obligations under the various partnership and loan agreements associated with the operation and construction of Ivy Lane Apartments including those relating to payment and performance by the General Partner, performance by the Developer, and prompt and complete payment of all costs and expenses incurred by the partnership.

**NOTE 13 – SUBSEQUENT EVENTS**

The Organization did not have any other subsequent events through July 5, 2010 which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the period ended December 31, 2010.

## **SUPPLEMENTARY INFORMATION**



BUSINESS PLANNING  
FINANCIAL STATEMENTS  
BUSINESS VALUATIONS  
TAX PLANNING  
TAX PREPARATION

**Independent Auditor's Report on Supplementary Information**

Board of Directors  
PACE Community Action Agency, Inc. and Subsidiary  
Vincennes, Indiana

Our report on our audit of the consolidated financial statements of PACE Community Action Agency, Inc. and Subsidiaries as of December 31, 2010 appears on page one. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information (shown on pages 20, 21, and 22) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the statements of financial position, results of activities and cash flows of the individual organizations. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole for the year ended December 31, 2010.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.  
July 5, 2011

**PACE COMMUNITY ACTION AGENCY, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010**

	2010						Consolidated Total
	Subsidiaries (Unrestricted)						
	Parent	PACE Ventures Holdings, Inc		PACE Ventures, LLC	PACE Adventures Childcare, LLC	Eliminations	
Unrestricted	Temporarily Restricted					Total	
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ 270,978	\$ 27,075	\$ 18,969	\$ 24,102	\$ -	\$ -	\$ 341,124
Certificates of deposit	64,223	-	-	-	-	-	64,223
Grants receivable	686,994	-	-	-	-	-	686,994
Other receivables	382,374	-	-	10,798	-	-	393,172
Inventory	11,123	-	-	-	-	-	11,123
Prepaid expenses	71,068	-	646	2,971	-	-	74,685
Total current assets	<u>1,486,760</u>	<u>27,075</u>	<u>19,615</u>	<u>37,871</u>	<u>-</u>	<u>-</u>	<u>1,571,321</u>
<b>PROPERTY AND EQUIPMENT:</b>							
Land	92,376	-	5,100	-	-	-	97,476
Property and equipment, net of accumulated depreciation and amortization	3,122,921	-	165,338	23,828	-	-	3,312,087
Total Property and Equipment	<u>3,215,297</u>	<u>-</u>	<u>170,438</u>	<u>23,828</u>	<u>-</u>	<u>-</u>	<u>3,409,563</u>
<b>OTHER ASSETS:</b>							
Due from PACE Ventures Holding Investment in subsidiaries	114,730	-	-	-	-	(114,730)	-
	5,538	-	36,616	-	-	(42,154)	-
Total other assets	<u>120,268</u>	<u>-</u>	<u>36,616</u>	<u>-</u>	<u>-</u>	<u>(156,884)</u>	<u>-</u>
Total assets	<u>\$ 4,822,325</u>	<u>\$ 27,075</u>	<u>\$ 226,669</u>	<u>\$ 61,699</u>	<u>\$ -</u>	<u>\$ (156,884)</u>	<u>\$ 4,980,884</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable	\$ 452,430	\$ -	\$ 1	\$ 1,954	\$ -	\$ -	\$ 454,385
Advance funds	170,391	-	1,095	-	-	-	171,486
Accrued payroll and payroll liabilities	178,440	-	192	8,138	-	-	186,770
Accrued paid time off	34,230	-	-	-	-	-	34,230
Due to other funds	173,860	-	1,100	2,616	-	-	177,576
EFTCU line of credit	23,096	-	-	-	-	-	23,096
Due to PACE Community Action Agency	-	-	114,730	-	-	(114,730)	-
Current portion of long-term debt	93,521	-	7,305	3,671	-	-	104,497
Total current liabilities	<u>1,125,968</u>	<u>-</u>	<u>124,423</u>	<u>16,379</u>	<u>-</u>	<u>(114,730)</u>	<u>1,152,040</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION:</b>							
	107,583	-	101,708	8,705	-	-	217,996
<b>NET ASSETS</b>	<u>3,588,774</u>	<u>27,075</u>	<u>538</u>	<u>36,615</u>	<u>-</u>	<u>(42,154)</u>	<u>3,610,848</u>
Total liabilities and net assets	<u>\$ 4,822,325</u>	<u>\$ 27,075</u>	<u>\$ 226,669</u>	<u>\$ 61,699</u>	<u>\$ -</u>	<u>\$ (156,884)</u>	<u>\$ 4,980,884</u>

See Independent Auditor's Report on Supplementary Information on page 19.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2010**

	2010						Consolidated Total
	Parent	Subsidiaries (Unrestricted)				Eliminations	
		Temporarily Restricted	PACE Ventures Holdings, Inc	PACE Ventures, LLC	PACE Adventures Childcare, LLC		
<b>Revenues and Other Support</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>PACE Ventures Holdings, Inc</b>	<b>PACE Ventures, LLC</b>	<b>PACE Adventures Childcare, LLC</b>	<b>Eliminations</b>	<b>Total</b>
Federal government revenue	\$ 10,115,884	-	\$ -	\$ -	\$ -	\$ -	\$ 10,115,884
State and local government revenue	51,675	-	-	-	-	-	51,675
Other grant income	26,185	-	-	-	-	-	26,185
Fees and program income	459,348	27,075	68,857	269,972	246,940	-	1,072,192
Contributions	27,730	-	-	-	-	-	27,730
Gain on disposal of equipment	2,875	-	-	-	-	-	2,875
Interest income	10,915	-	-	-	-	-	10,915
Investment income (loss) - subsidiaries	-	-	90,786	-	-	(137,894)	-
Inkind contributions	367,338	-	-	-	-	-	367,338
<b>Total revenues and other support</b>	<b>11,061,950</b>	<b>27,075</b>	<b>159,643</b>	<b>269,972</b>	<b>294,048</b>	<b>(137,894)</b>	<b>11,674,794</b>
<b>Operating Expenses:</b>							
Community Services Block Grant	634,459	-	-	-	-	-	634,459
Energy assistance	2,719,301	-	-	-	-	-	2,719,301
Leveraging incentive	1,751	-	-	-	-	-	1,751
Weatherization assistance program	2,091,536	-	-	-	-	-	2,091,536
Head Start	3,936,095	-	-	-	-	-	3,936,095
Family planning	715,340	-	-	-	-	-	715,340
Women, infants and children	284,760	-	-	-	-	-	284,760
Development projects	87,780	-	-	-	-	-	87,780
Other programs	77,103	-	-	-	-	-	77,103
Management and general	245,716	-	-	-	-	-	245,716
Fundraising	1,738	-	-	-	-	-	1,738
Subsidiaries	-	-	66,013	267,529	158,597	-	492,139
<b>Total operating expenses</b>	<b>10,795,579</b>	<b>-</b>	<b>66,013</b>	<b>267,529</b>	<b>158,597</b>	<b>-</b>	<b>11,287,718</b>
Increase (decrease) in net assets							
	266,371	27,075	93,630	2,443	135,451	(137,894)	387,076
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>3,322,403</b>	<b>-</b>	<b>(93,092)</b>	<b>34,172</b>	<b>(135,451)</b>	<b>95,740</b>	<b>3,223,772</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,588,774</b>	<b>\$ 27,075</b>	<b>\$ 538</b>	<b>\$ 36,615</b>	<b>\$ -</b>	<b>\$ (42,154)</b>	<b>\$ 3,610,848</b>

See Independent Auditor's Report on Supplementary Information on page 19.

**PACE COMMUNITY ACTION AGENCY, INC.  
CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Parent	PACE Ventures Holdings, Inc	PACE Ventures, LLC	PACE Adventures Childcare, LLC	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Increase (decrease) in net assets	\$ 293,446	\$ 93,630	\$ 2,443	\$ 135,451	\$ (137,894)	\$ 387,076
Adjustments to reconcile increase in net assets to net cash used in operating activities:						
Depreciation	265,638	13,489	828	570	-	280,525
Gain on donation of facility	(27,730)	-	-	-	-	(27,730)
Gain on disposal of equipment	(2,875)	-	-	-	-	(2,875)
Loss on investment in subsidiaries	47,108	(137,894)	-	-	137,894	47,108
Increase (decrease) in cash from changes in:						
Grants receivable	(271,609)	-	-	-	-	(271,609)
Other receivables	(198,878)	5,900	1,052	25,607	-	(166,319)
Inventory	355	-	-	-	-	355
Prepaid expenses	5	(646)	(1,901)	2,918	-	376
Accounts payable	(142,061)	1	1,295	(10,450)	-	(151,215)
Advance Funds	164,302	293	-	-	-	164,595
Accrued payroll and payroll expenses	27,407	192	3,187	(4,712)	-	26,074
Accrued paid time off	(668)	-	-	-	-	(668)
Due to other funds	73,711	7,873	485	(59,091)	-	22,978
	228,151	(17,162)	7,389	90,293	-	308,671
Net cash provided by (used in) operating activities						
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of certificates of deposit	(1,141)	-	-	-	-	(1,141)
Acquisition of property and equipment	(345,998)	(2,126)	(22,673)	-	-	(370,797)
Proceeds from sale of property and equipment	25,555	-	-	2,127	-	27,682
	(321,584)	(2,126)	(22,673)	2,127	-	(344,256)
Net cash used in investing activities						
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Net change in line of credit	(36,476)	-	-	-	-	(36,476)
Proceeds from notes payable	186,374	44,757	12,700	-	-	243,831
Principal payments against notes payable	(119,375)	(7,214)	(324)	(96,876)	-	(223,789)
	30,523	37,543	12,376	(96,876)	-	(16,434)
Net cash provided by financing activities						
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(62,910)	18,255	(2,908)	(4,456)	-	(52,019)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	360,963	714	27,010	4,456	-	393,143
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 298,053	\$ 18,969	\$ 24,102	\$ -	\$ -	\$ 341,124
<b>Supplemental disclosures of Cash Flow Information</b>						
Cash paid during the year for interest	\$ 11,844	\$ 11,104	\$ 62	\$ 4,363	\$ -	\$ 27,373

See Independent Auditor's Report on Supplementary Information on page 19.

**SINGLE AUDIT SECTION**

**PACE COMMUNITY ACTION AGENCY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Rural Business Enterprise Grant	10.783		\$ 30,000
Passed through the Indiana State Department of Health:			
Women Infants and Children	10.557	MCH 552-2	277,745
Child and Adult Care Food Program - Head Start	10.558		164,820
Child and Adult Care Food Program - Early Head Start	10.558		11,664
			<u>484,229</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Indiana Housing & Community Development Authority:			
CHDO Works	14.239	PD-008-008	13,417
CDBG-OOR	14.228	DR20R-009-039	83
			<u>13,500</u>
<b>U.S. Department of Energy</b>			
Passed through the Indiana Housing & Community Development Authority:			
Weatherization - DOE	81.042	WX-010-023	56,921
Weatherization - ARRA HEC	81.042	HEC-009-023	1,284,427
Weatherization - ARRA HEC	81.042	HEC-010-023	243,756
Passed through the Indiana Office of Energy Development			
Energy Efficiency and Conversation Grant - ARRA	81.041	DE-EE-00725	22,240
			<u>1,607,344</u>
<b>Federal Emergency Management Agency</b>			
Emergency Food & Shelter Program-Daviess	97.024	21-2648-00	11,851
Emergency Food & Shelter Program-Knox	97.024	21-2708-00	10,117
Emergency Food & Shelter Program-Greene	97.024	21-2680-00	4,500
Emergency Food & Shelter Program-Sullivan	97.024	21-2790-00	6,068
			<u>32,536</u>
<b>U.S. Department of Health and Human Services</b>			
Direct Program:			
Early Head Start and Head Start Program	93.600	05CH4082/45-46	3,071,981
Head Start and Early Head Start - ARRA	93.708	05SE4082	125,561
EHS Expansion - ARRA	93.709	05SA4082/01	267,743
Passed through the Indiana Housing & Community Development Authority:			
Weatherization/ Energy Assistance for Low-Income Families	93.568	LI-009-023/WL-008-023/WL-010-023	3,185,606
Community Services Block Grant	93.569	CS-010-023	238,897
Business Enterprise and Economic Development - CSBG		CS-10-027CSBG	50,000
Community Services Block Grant - ARRA	93.710	CS-ARRA-023	401,700
Passed through the Indiana Family Health Council:			
Family Planning Title V	93.994		80,012
Family Planning Title X	93.217		473,822
Family Planning TXX/TANF	93.667		82,953
			<u>7,978,275</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 10,115,884</u>

See accompanying note to Schedule of Expenditures of Federal Awards.

**PACE COMMUNITY ACTION AGENCY, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2010**

**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Client Name and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**PACE COMMUNITY ACTION AGENCY, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2010**

No matters were reported for the year ended December 31, 2009.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Directors  
PACE Community Action Agency, Inc.  
Vincennes, Indiana

We have audited the financial statements of PACE Community Action Agency, Inc. (a nonprofit organization), as of and for the year ended December 31, 2010, and have issued our report thereon dated July 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PACE Community Action Agency, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency identified as FS-2010-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether PACE Community Action Agency, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.

July 5, 2011



BUSINESS PLANNING  
FINANCIAL STATEMENTS  
BUSINESS VALUATIONS  
TAX PLANNING  
TAX PREPARATION

**INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
PACE Community Action Agency, Inc.  
Vincennes, Indiana

Compliance

We have audited the compliance of PACE Community Action Agency, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2010. PACE Community Action Agency, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of PACE Community Action Agency, Inc.'s management. Our responsibility is to express an opinion on PACE Community Action Agency, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PACE Community Action Agency, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of PACE Community Action Agency, Inc.'s compliance with those requirements.

As described in items FA-2010-01 through FA-2010-04, in the accompanying schedule of findings and questioned costs, PACE Community Action Agency, Inc. did not comply with final inspection and documentation requirements that are applicable to its Weatherization program. Compliance with such requirement is necessary, in our opinion, for PACE Community Action Agency, Inc. to comply with the requirement applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, PACE Community Action Agency, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2010.

## Internal Control Over Compliance

The management of PACE Community Action Agency, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered PACE Community Action Agency, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PACE Community Action Agency, Inc.'s internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control described in the accompanying schedule of findings and questioned costs as item FA-2010-01 through FA-2010-04 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.

July 5, 2011



**PACE COMMUNITY ACTION AGENCY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2010**

Dollar threshold used to distinguish between type A and type B programs \$302,607

Auditee qualified as low-risk auditee? Yes  No

**Section II – Financial Statement Findings**

**Finding FS-2010-01 All Programs, Revenue Recognition – Internal Control**

*Condition:* During our testing of grants receivable and related revenues, it was noted that certain claims for expenditures incurred were not recorded in the period earned.

*Criteria:* Generally Accepted Accounting Principles require that revenues be recorded in the period earned.

*Context:* Reimbursable expenditures incurred in the last month of the fiscal year for several programs, including Neighborhood Stabilization Program, and Headstart, were not included in accrued revenues and grant receivables as of December 31, 2010.

*Effect:* Prior to the proposed audit adjustment, revenues for the year ended December 31, 2010 were understated by \$149,897.

*Recommendation:* At the end of each accounting period, the financial management staff should review expenditures for each grant and ensure that revenues related to expenditures are recognized and recorded.

*Management Corrective Action Plan:* To ensure all revenues are recognized in the correct year, an additional reconciliation to expenditures will be performed and included in the accounting workpapers.

**Section III – Federal Award Findings and Questioned Costs**

**Finding FA-2010-01 CFDA #93.568 Final Inspection and Documentation Requirements for Weatherized Units, Compliance Requirement – Special Requirements**

*Condition:* During the audit of weatherization client files, four files contained incomplete Final Inspection forms.

*Criteria:* The Weatherization Assistance Program Policy guide states that the Final Inspection form must contain the following information: name of the client, name and original signature of the auditor, date of the inspection, client signature and a statement that the home either failed or passed inspection.

*Context:* Four of the twenty five files examined contained Final Inspection forms that were missing one or more of the required elements.

*Cause:* Substantial increases in weatherization activity and turn-over in contractors and staff in 2010 made it difficult for PACE managers to monitor all weatherization files.

*Effect:* Complete documentation of work performed and results of work performed was not retained in accordance with State standards.

*Recommendation:* We recommend that training for the weatherization staff be provided that includes the required documentation standards. Additionally, it is recommended that the form checklist be completed for each file and reviewed by a manager to ensure that all forms are accurately completed, signed when necessary, and filed in the appropriate client file.

*Management's Corrective Action Plan:* In addressing the issue noted, we have responded by 1) new clerical support staff is being trained to focus on file integrity; 2) management will be developing a file compliance training for all staff as well as contractors; and 3) we are currently conducting an internal audit of all current files to ensure that all documents are in place as needed.

**Finding FA-2010-02 CFDA #93.568 Final Inspection and Documentation Requirements for Weatherized Units, Compliance Requirement – Special Requirements**

*Condition:* During the audit of weatherization client files, two files contained Moisture Assessment forms that were incomplete.

*Criteria:* The Weatherization Assistance Program Policy guide states that the Moisture Assessment form must list the moisture conditions that exist in the home at the time of the initial audit.

*Context:* Two of the twenty five files examined contained Moisture Assessment forms that did not indicate whether there were moisture issues in the dwelling.

*Cause:* Substantial increases in weatherization activity and turn-over in contractors and staff in 2010 made it difficult for PACE managers to monitor all weatherization files.

*Effect:* Complete documentation of work performed and results of work performed was not retained in accordance with State standards.

*Recommendation:* We recommend that training for the weatherization staff be provided that includes the required documentation standards. Additionally, it is recommended that the form checklist be completed for each file and reviewed by a manager to ensure that all forms are accurately completed, signed when necessary, and filed in the appropriate client file.

*Management's Corrective Action Plan:* In addressing the issue noted, we have responded by 1) new clerical support staff is being trained to focus on file integrity; 2) management will be developing a file compliance training for all staff as well as contractors; and 3) we are currently conducting an internal audit of all current files to ensure that all documents are in place as needed.

**Finding FA-2010-03 CFDA #93.568 Final Inspection and Documentation Requirements for Weatherized Units, Compliance Requirement – Special Requirements**

*Condition:* During the audit of weatherization client files, two files contained incomplete New Furnace Inspection forms.

*Criteria:* The Weatherization Assistance Program Policy guide states that a New Furnace Installation Inspection form will be completed when a new heating system is installed.

*Context:* Two of the twenty five files examined contained New Furnace Installation Inspection forms that did not indicate the date of the inspection.

*Cause:* Substantial increases in weatherization activity and turn-over in contractors and staff in 2010 made it difficult for PACE managers to monitor all weatherization files.

*Effect:* Complete documentation of work performed and results of work performed was not retained in accordance with State standards.

*Recommendation:* We recommend that training for the weatherization staff be provided that includes the required documentation standards. Additionally, it is recommended that the form checklist be completed for each file and reviewed by a manager to ensure that all forms are accurately completed, signed when necessary, and filed in the appropriate client file.

*Management's Corrective Action Plan:* In addressing the issue noted, we have responded by 1) new clerical support staff is being trained to focus on file integrity; 2) management will be developing a file compliance training for all staff as well as contractors; and 3) we are currently conducting an internal audit of all current files to ensure that all documents are in place as needed.

**Finding FA-2010-04 CFDA #93.568 Final Inspection and Documentation Requirements for Weatherized Units, Compliance Requirement – Special Requirements**

*Condition:* During the audit of weatherization client files, one file was missing the required Client Consent form.

*Criteria:* The Weatherization Assistance Program Policy guide states that the Client Consent form is the release of liability form that provides a waiver given the occupant/owner of the dwelling to the local Weatherization Administrator providing weatherization services. All files must contain this signed form.

*Context:* One of the twenty five files examined did not contain a Client Consent form.

*Cause:* Substantial increases in weatherization activity and turn-over in contractors and staff in 2010 made it difficult for PACE managers to monitor all weatherization files.

*Effect:* Complete documentation of work performed and results of work performed was not retained in accordance with State standards.

*Recommendation:* We recommend that training for the weatherization staff be provided that includes the required documentation standards. Additionally, it is recommended that the form checklist be completed for each file and reviewed by a manager to ensure that all forms are accurately completed, signed when necessary, and filed in the appropriate client file.

*Management's Corrective Action Plan:* In addressing the issue noted, we have responded by 1) new clerical support staff is being trained to focus on file integrity; 2) management will be developing a file compliance training for all staff as well as contractors; and 3) we are currently conducting an internal audit of all current files to ensure that all documents are in place as needed.